



8 health check areas for regulatory reporting functions

The target operating model

As reporting functions play a more significant role in meeting the regulatory obligations of financial institutions the challenges they face are becoming increasingly apparent and having wider implications, particularly from a risk perspective. Traditional regulatory reporting operating models have not evolved at the same pace as the regulatory environment and require investment and targeted development to adequately support the business. Furthermore, the Central Bank of Ireland is enhancing supervisory engagement and the Single

Supervisory Mechanism is putting 'data and reporting capabilities' at the centre of their enforcement priorities, meaning that the operational and reputational risks associated with having legacy operating models will continue to increase.

Regulatory reporting has rarely been a focus area within institutions and the increased regulatory reporting burden since the global financial crisis has mostly been addressed by short-term tactical solutions. Institutions navigating the financial crisis typically have not had the resources or the systematic capabilities to

build flexible, scalable operating models that could adapt to the upcoming surge of reporting requirements and thematic inspections while those that did were reluctant to invest in the changeable environment. Aside from systematic and resource limitations, reporting functions may not have had the support of governance structures that would allow the function to meet the increasingly demanding short and long-term expectations. For regulatory reporting functions that should be progressing their operating models there are a number of key areas that require focus.

1. Data quality and governance

Data quality is a challenge across all institutions and the fundamental principles of data management shared by both EIOPA and the Basel Committee on Banking Supervision¹ are difficult for institutions to embed. The typical root cause of data quality issues is a simple matter of data being captured incorrectly at source and downstream impacts not being fully understood. These issues are usually compounded by a culture of data users being considered as data owners. In instances where regulatory reporting functions are identifying data quality issues (which is not always the case) downstream manual adjustments are often applied which inevitably leads to reconciliation differences. Progressive institutions will have aimed to address these issues through data governance frameworks, however a cultural shift regarding how data ownership is perceived and managed is a key aspect of any long term solution.

2. Documented regulatory interpretations

The complex regulatory guidance from the European Single Rulebook means that first line of defence functions require in-depth understanding of regulatory rules and how they are applied. Less complex institutions may not retain this expertise across all lines of defence and rely on out of date interpretations or external advice to bridge the gaps. In cases where regulatory interpretations are applied to the reports, they are rarely logged appropriately or reviewed on an ongoing basis for continued accuracy. Typically this is due to a lack of resources within the function to document what in some cases is very complex rationale across thousands of data points. Increasingly, firms have started to collate this information into user friendly databases with audit traceability to create one source of the truth for interpretations.

3. The right personnel

The variety of disciplines required to maintain a regulatory reporting function can be difficult to source and maintain. In many cases language experts are

required for branch reporting which adds to the burden of sourcing individuals with accountancy based experience who may also be required to interpret legal text. Governance structures and in some cases risk cultures do not promote rapid decision-making which is critical when operating within short reporting cycles. Increasingly, teams with data quality and analytics capabilities are required to improve reporting accuracy and to allow functions to benchmark to industry peers. Institutions are only now beginning to source and train personnel to meet these needs as the market develops.

4. Management of unscheduled reporting requests

Recent times have seen the data demands of regulators increase dramatically with 'fire drill' data requests having the dual purpose as data gathering exercise and operational stress tests on regulatory reporting functions. The challenge that institutions face in this regard is that typically these requests require the reallocation of resources from business as usual tasks. If there are manual data adjustments that are only understood by a small number of individuals this can add to the challenge. If a high level of data manipulation is required it can drain significant resources and result in technical assumptions being made. Furthermore there may be inadequate time to appropriately review any assumptions made due to the short turn-around time of the requests. Aside from the data governance being key to addressing this challenge, designated unscheduled reporting teams may also be required to manage the upsurge in requests.

5. Assessment of the impact of changes in regulation

The constantly evolving regulatory reporting guidance issued by the European Banking Authority through its European Single Rulebook and the Solvency II Implementing Technical Standards have created the need for real-time regulatory change management processes. In many institutions upstream monitoring of regulatory changes takes place on an ad-

hoc basis and applicability assessments of regulations are not appropriately documented. For firms where upstream monitoring of requirements is taking place, the change management process may not be structured in such a way as to allow the impact of the changes to be fully disseminated across the organisation. This leads to reconciliation differences between regulatory returns, management reports and financial statements and sometimes within the regulatory reports themselves. Institutions require robust end-to-end change management processes with detailed impact assessments that reach all stakeholders across the entire organisation to address this challenge.

6. Systems that are fit for purpose

Outdated source systems and system extracts that are no longer fit for purpose are commonplace in institutions. Enhancements to these systems requires significant investment and comprehensive testing which can be resource and time intensive. Furthermore as an increasing amount of institutions use third party tools for reporting purposes they risk becoming over-dependent on a vendor whose support schedules do not align to the regulatory reporting schedule and daily monitoring requirements. As source systems are replaced or updated and critical implementation projects such as IFRS 9 are carried out, regulatory reporting functions must ensure they are considered as a key stakeholder in the project as the ultimate user of this information.

7. Robust review and sign-off practices

The relentless nature of the regulatory reporting schedule and deadlines often converging at the final stage of the financial reporting cycle, means there is limited time for review and consistency checks across returns. Adding to this challenge is the sheer volume of information being recorded which makes it very difficult for senior management and the board of directors to gain assurance that the returns are fully accurate. Standardised and integrated review process including review packs and targeted review sessions

¹ CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Technical Provisions – Article 86f Standards for Data Quality and Basel Committee on Banking Supervision: Principles for effective risk data aggregation and risk reporting

at specific points in the reporting cycle are two straight-forward methods of increasing controls in this area and should be implemented across institutions.

8. Defined roles and responsibilities

Across the industry regulatory reporting functions face challenges regarding role definition and in many cases the interaction with the Second Line of Defence has not been defined. It is unusual for an institution's First Line of Defence function will possess the technical skill sets and business knowledge to interpret and apply requirements while at the same time the Second Line of Defence function will possess the identical skillset to be able to challenge these interpretations effectively. Business lines are often not aware of their role in the end-to-end of the reporting cycle and therefore information is captured or changed without the downstream impact to regulatory reporting being fully understood. Clearly defined and well communicated roles and responsibilities are central to a well-functioning operating model.

There is no doubt that addressing these challenges is a difficult task for institutions

and in some cases requires significant investment and senior management buy-in. However, there is also no doubt as to increasing levels of risk associated with not fulfilling heightened regulatory expectations with regard to data aggregation and regulatory reporting.

For more information on the regulatory reporting target operating model or for any prudential regulation questions including tailored assessments, please contact the Deloitte Ireland Prudential Regulation Team.

How Deloitte can Help?

Deloitte operate within the EMEA Regulatory network and have specifically developed tools and methodologies based on EMEA best practice that can help to address the challenges outlined in this article.

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